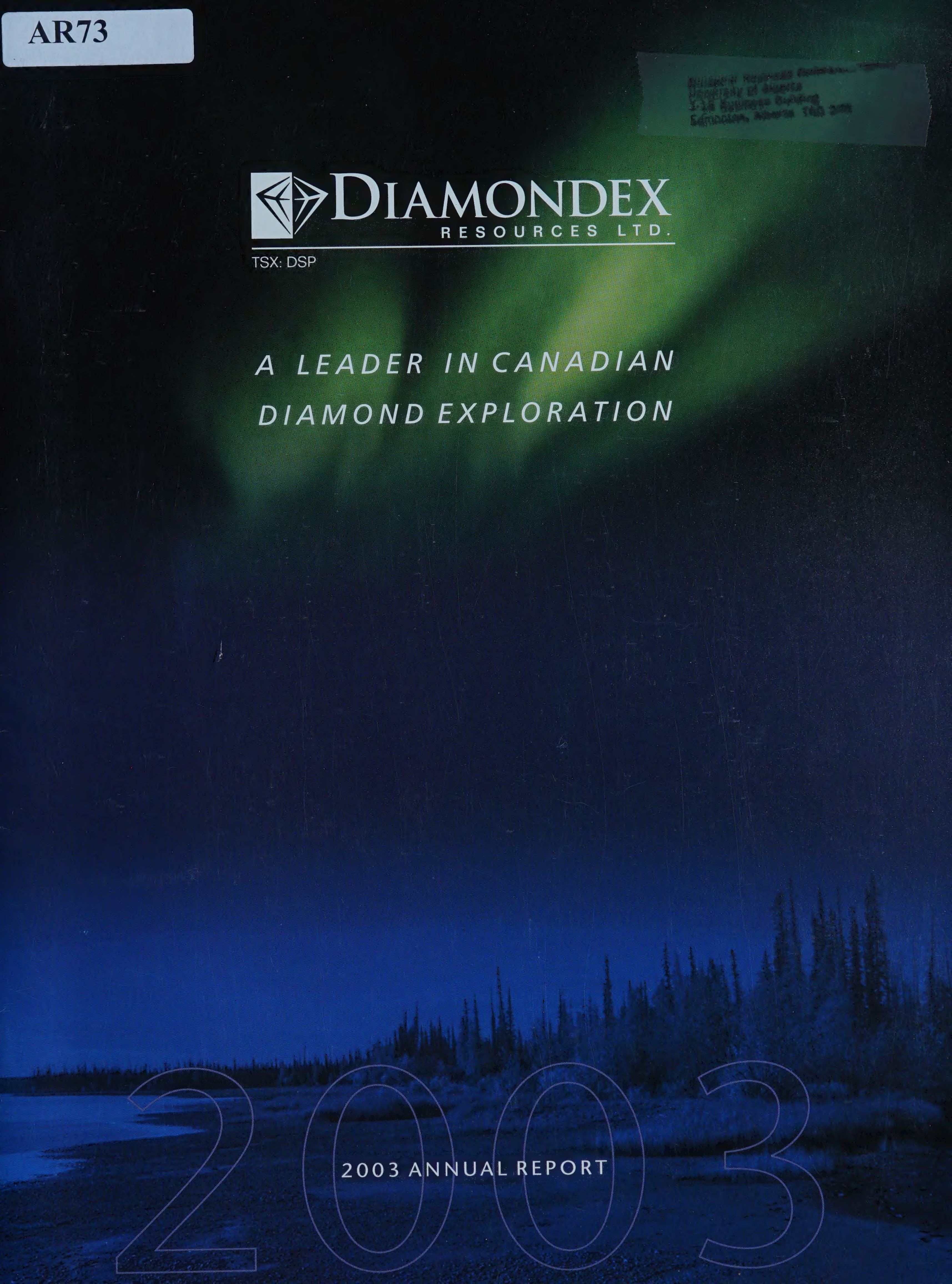

# DIAMONDEX RESOURCES LTD.

TSX: DSP

## A LEADER IN CANADIAN DIAMOND EXPLORATION

2003 ANNUAL REPORT

DIAMONDEX RESOURCES LTD.
TSX: DSP

# Corporate Vision


*The corporate vision is to discover economic diamond deposits to attain maximum value for its shareholders. Diamondex intends to achieve this vision by employing and improving successful exploration techniques while conducting its activities as responsible stewards of the environment and demonstrating its commitment to the North and its aboriginal peoples.*

DIAMONDEX
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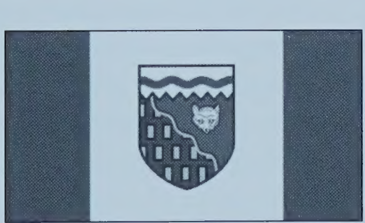
# Contents





***1934*** ***Gold is discovered at Yellowknife Bay, and a new town springs up.***

***1984*** ***The Inuvialuit of the Western Arctic sign the North's first Land Claim.***

***1991*** ***Discovery of diamonds in NWT results in largest staking rush in Canadian history.***

***1996*** ***Snap Lake diamond deposit discovered.***

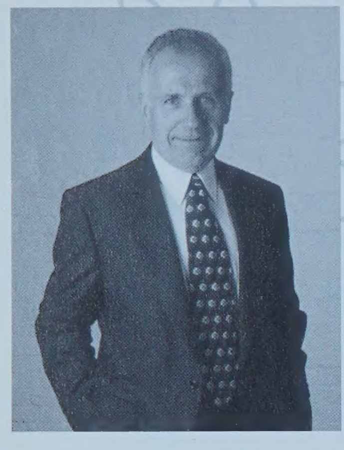
***1998*** ***Ekati becomes the first diamond mine in North America.***

***1999*** ***The NWT divides with the creation of Nunavut.***

***2003*** ***Diavik diamond mine starts production.***

DIAMONDEX RESOURCES LTD.
TSX: DSP

# Report to the Shareholders



*Mr. Turner has been President of Diamondex Resources Ltd. since 1999, when the Company first traded as a "spin-off" from Winspear Diamonds Inc. As former President of Winspear for nine and a half years, Mr. Turner guided the Company from the discovery of the Snap Lake diamond deposit through to its sale to De Beers Canada Mining Inc. for $305 million.*

On behalf of the Board of Directors, I am pleased to report on the activities and accomplishments of Diamondex Resources Ltd. during the past twelve months and to present the audited financial statements for the fiscal year ending December 31, 2003.

During 2003, Diamondex continued to be one of Canada's most active diamond exploration companies focusing its efforts in the Northwest Territories, Nunavut and northern Quebec. Detailed evaluations were conducted by the Company on several of its key diamond projects resulting in exploration expenditures for 2003 in excess of $6 million. This brings the total expenditures for diamonds in Canada by the Company to approximately $26 million since 1999. At year end, Diamondex was exploring 16 projects, totaling approximately 7.6 million acres, with participating interests ranging from 45 to 100 percent. Some of the highlights of 2003 are outlined below.

In February 2003, Diamondex was granted 139 prospecting permits, covering approximately 6.15 million acres, in the Mackenzie River region of the Northwest Territories. This acquisition resulted from the Company's reconnaissance stream sampling program conducted in 2002 in this region, which outlined anomalous concentrations of kimberlite indicator minerals. These discoveries suggested the presence of a new kimberlite province. During 2003, Diamondex conducted an extensive stream sampling and airborne magnetic survey to evaluate the permit area. A 63,800 line-kilometre airborne magnetic survey was conducted over approximately two-thirds of the permit area outlining several significant geophysical targets for follow-up. Approximately 1,054 stream samples were collected during the course of exploration, resulting in the recovery of five microdiamonds (up to 1.5mm in one dimension) and significant concentrations of kimberlite indicator minerals (KIMs), including pyrope garnets, picroilmenites and chromites. This project area, referred to as Lena West, is a major acquisition for the Company and has the potential to host world class diamond-bearing kimberlite fields. A total of $2.6 million was expended on this project during 2003 with $3.5 million budgeted for 2004, which will include additional airborne geophysics, stream sampling, auger and diamond drilling.

Diamondex continued to evaluate its 100 percent owned King property which covers the downdip extension of De Beers Canada Mining Inc.'s Snap Lake diamond deposit, scheduled for production as Canada's third diamond mine in 2006. Seismic surveys, ground geophysics and drilling have confirmed the downdip extension of the Snap Lake dyke on to the King property with potentially similar grades and diamond distribution. The King property is considered one of the key assets of the Company and further evaluations will be carried out to prove up the potential of this project

Other key projects that were explored over the past year include the 252,766 acre Bear Head project, located immediately southeast of the Snap Lake diamond deposit. Detailed geophysics, till sampling as well as drilling were conducted over various target areas with several areas remaining to be tested during 2004. Approximately $2.1 million has been expended on the Bear Head project to date, and an estimated $725,000 will be targeted toward further evaluation of this project.

The Hilltop project, located immediately south of the Snap Lake diamond deposit, was further tested by drilling on a significant kimberlite indicator mineral train. The source of these KIMs has yet to be discovered and further drill testing will be conducted during 2004. To date, approximately $4.8 million has been expended on this project.

Other projects which the Company focused on were the 154,424 acre Peregrine joint venture (70% Diamondex, 30% Stornoway Diamond Corporation), the 68,278 acre Heeqou property, both located in the Coronation Gulf diamond

district, as well as the 100 percent owned Kingfish property, situated between the Camsell Lake claim block, which hosts the Snap Lake deposit and the AK property, which hosts the Kennady Lake diamondiferous kimberlites. Diamondex, along with its 50 percent joint venture partner Majescor Resources Inc. conducted extensive till sampling on its Gayot project in northern Quebec, with positive geochemical results obtained to date. A $300,000 winter/spring 2004 exploration program including till sampling and drilling to further evaluate this project will be carried out.

During the past year, the Company's share price fluctuated from a low of $0.70 to close out the year at $0.88 after hitting a 52-week high of $1.15 during March 2003. Overall, the Canadian equity markets continued to be depressed during the first three quarters of the year with a general lack of investor confidence due to the meltdown in the blue chip sector and again, several high profile corporate scandals and fraud. However, during the fourth quarter of the year, with declining interest rates, the falling US dollar and an upsurge in the gold markets resulted in a renewed interest in all sectors of the resource markets from diamonds and base metals to gold and precious metals. Financings in the junior resource sector were the highest in recent years, suggesting that the coming year will be one of the most active exploration years in Canada since 1996. The diamond sector again was the focus of attention in early 2003 with the announcement of millions of acres in exploration permits being granted for diamond exploration in the Mackenzie River area to Diamondex, as well as large tracts in the Melville Peninsula and Churchill Region of Nunavut to other diamond explorers. The total acreage in exploration permits granted both in the Northwest Territories and Nunavut exceeded 30 million acres.

During 2003, the Company completed $6.5 million in equity financings allowing the Company to continue its aggressive exploration programs. In addition, Diamondex has approximately $12.6 million in unexercised warrants which will ensure the Company a strong financial future and minimal shareholder dilution. At December 31, 2003 there were 48,987,332 shares issued and outstanding and, with a 2004 budget estimated at approximately $5.4 million, Diamondex will continue its aggressive exploration programs as well as evaluating other diamond opportunities during 2004 with the primary focus of enhancing shareholder value.

On July 23, 2003, Diamondex announced the appointment of Mr. J. Christopher Mitchell as Chief Financial Officer. Mr. Mitchell brings over 30 years of financial experience to the Company and has been involved in over $200 million in equity and debt financings with such companies as Viceroy Resource Corporation, Orvana Minerals Corp. and Constellation Copper Corporation. The Board welcomes Mr. Mitchell who replaces Dr. John McDonald, who will retain his position as Director and Chief Technical Advisor to the Company.

On behalf of the Board of Directors I would like to extend our sincere appreciation to our loyal shareholders for their continued support. I would also like to take this opportunity to extend a special thanks to our dedicated and enthusiastic exploration and administrative staff for their significant contribution towards Diamondex's accomplishments - 2004 should prove to be an exciting and challenging year.

Randy C. Turner

**** The diamond was adopted as the official gemstone of the Northwest Territories on September 9, 1999, to recognize that the NWT is home to Canada's first diamond mine.***

# Management's Discussion & Analysis of

** From 1998 to 2002 roughly 13.8 million carats have been mined in Canada, collectively worth $2.8 billion. This is approximately a 1.5-kilogram bag of ice each day for five years, with each bag worth $1.5 million.*

**This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited financial statements and accompanying notes for the relevant periods, copies of which are filed on the SEDAR website.**

**The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles, and these statements are filed with the relevant regulatory authorities in Canada. All monetary amounts are in Canadian dollars unless otherwise noted.**

**This MD&A contains certain forward-looking information. All information, other than historical facts included herein, including without limitation data regarding potential mineralization, exploration results and future plans and objectives of Diamondex Resources Ltd. ("Diamondex", or the "Company") is forward-looking information that involves various risks and uncertainties. There can be no assurance that such information will prove to be accurate and actual results and future events could differ materially from those anticipated in the forward-looking information.**

## 1. Overview

Diamondex is an active resource exploration company whose activities at the present time are focused on the exploration and development of diamond properties in Canada, principally in the Northwest Territories, Nunavut and northern Quebec. The Company was incorporated as 580312 B.C. Ltd. in the province of British Columbia on February 18, 1999. The name was changed to Diamondex Resources Ltd. on March 23, 1999.

Diamondex holds the exploration rights to its properties by means of claims acquired by staking, or by prospecting permits. In aggregate, the Company's property holdings at December 31, 2003 encompassed approximately 7.67 million acres (gross), made up as follows:

| | Claims | | Prospecting Permits | |
|---|---|---|---|---|
| **Jurisdiction** | **No.** | **Acres** | **No.** | **Acres** |
| Northwest Territories | 485 | 1,133,439 | 139 | 6,154,748 |
| Nunavut | 92 | 222,703 | | - |
| Quebec | 1382 | 161,198 | | - |
| **Total** | | **1,517,340** | | **6,154,748** |

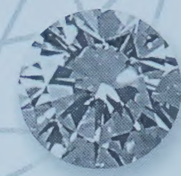
Since the beginning of 2004, Diamondex has acquired an additional 41,563 acres of claims in the Northwest Territories and 30,990 acres in Nunavut, and was awarded two prospecting permits covering 73,010 acres in Nunavut. The Company's exploration portfolio currently contains 16 properties.

To maintain claims in good standing in the Northwest Territories and Nunavut, claimants must incur eligible exploration expenditures at a rate of $2.00 per acre per year, or make cash payments in lieu. However, this requirement is waived the first year after mineral claims are staked, provided that by the end of the second year, the claimant has performed at least $4.00 of work per acre, or pays the difference between $4.00 per acre and the amount actually spent, if less, as an "in lieu" payment. Expenditures in excess of $2.00 per acre in any year can be carried forward as a credit against minimum work requirements in future years. In order to retain the 72,553 acres staked since the beginning of 2004, Diamondex will have to incur approximately $290,000 in exploration expenditures on these claims by early 2006, or make up the shortfall, if any, with an in lieu payment.

# Financial Condition & Results of Operations

DIAMONDEX RESOURCES LTD.
TSX: DSP

In respect of properties held as mineral claims, Diamondex has a 100% interest in a majority of the properties, but its interests in seven properties are held pursuant to joint venture agreements where the Company's interest ranges from 45.1% to as much as 80%. Diamondex acts as the operator for five of the joint ventures. Three properties are subject to royalty interests held by third parties. See note 4 to the audited financial statements.



At December 31, 2003, the Lena West project was the only property controlled by Diamondex held under prospecting permits. Acquisition of the Lena West property on February 3, 2003 resulted in a major increase in the acreage under the Company's control, when Diamondex was granted 139 prospecting permits covering 6.15 million acres. These permits give the Company exclusive access to an area that in the view of Diamondex could be a major unrecognized kimberlite-hosting geologic province. The project is centered approximately 310 kilometres north of Norman Wells and 200 kilometres southeast of Inuvik, in the Northwest Territories.

**** At over 2 million square kilometres, Nunavut is twice the size of Ontario and four times as large as France.***

Above 68° north latitude, prospecting permits are valid for five years. South of that latitude, they are valid for three years. To hold ground when permits expire, permit holders must stake mineral claims covering the areas they wish to retain. Applications for prospecting permits must be accompanied by a performance bond at the rate of $0.10 per acre applied for to cover the first year's bonding requirement. Subsequent bonding requirements are shown below:

| Year | South of 68° north latitude | North of 68° north latitude |
|---|---|---|
| One | $0.10 per acre | $0.10 per acre |
| Two | $0.20 per acre | Not applicable |
| Three | $0.40 per acre | $0.20 per acre |
| Four | Not applicable | Not applicable |
| Five | Not applicable | $0.40 per acre |

Eligible exploration expenditures on a permit area in a given year are credited against the bonding requirement for that year, and if the expenditures equal or exceed the bond amount, the full amount of the bond will be refunded. However, as the refund is not issued until well after the anniversary date of the prospecting permit, in practice, the permit holder must post the full amount of the current year's required bond several months before receiving the refund of the prior year's bond. This payment/refund sequence can impose a significant cash management burden on exploration companies with large permit areas and limited cash resources.

Approximately 61% of the acreage making up the Lena West property lies south of 68° north latitude. To hold the entire Lena West permit area, bonding requirements in 2004 and 2005 would be approximately $1.2 million and $2.0 million, respectively. However, the bonding requirements for 2005 are expected to be less than the latter amount, as lower-priority areas may be "farmed-out" via joint venture arrangements, and some areas may be dropped entirely, before the 2005 bonds have to be posted.

Diamondex currently has no producing properties, and consequently no operating income or cash flow. Because of the size of the portfolio of exploration properties, and the magnitude of the expenditures needed to fund exploration programs, particularly in northern Canada, Diamondex may make increasing use of joint venture arrangements to share the costs and risks associated with exploring some of its mineral properties.

# Management's Discussion & Analysis of

*** Diamond exploration accounted for 23% of the total $2.7 billion spent on metal and mineral exploration in Canada from 1998 to 2002.***

In the past, Diamondex has accessed, and in the future will continue to access, the equities markets to raise the funds needed to continue aggressive exploration programs on its various property holdings. The Company's dependence on the equities markets to fund its investing activities for capital asset purchases, mineral property acquisition costs and deferred exploration costs is demonstrated by the following table:

| | **As at and for the financial year ended Dec. 31** | | |
|---|---|---|---|
| | **2003** | **2002** | **2001** |
| Net cash used in investing activities | $8,041,523 | $9,419,116 | $8,730,596 |
| Capital stock, net of issuance costs | $9,903,129 | $5,679,679 | $7,660,411 |

## 2. Selected Annual Information

The following table sets forth selected financial information for Diamondex for the last three completed financial years ended December 31. This information has been derived from the Company's audited financial statements for each of those years, and should be read in conjunction with those financial statements and the notes thereto.

| | **As at and for the financial year ended Dec. 31** | | |
|---|---|---|---|
| | **2003** | **2002** | **2001** |
| (a) Net sales or total revenues | $ Nil | $ Nil | $ Nil |
| (b) Income (loss) from continuing operations: | | | |
| (i) in total | $ (2,595,019) | $ (1,617,839) | $ (1,442,013) |
| (ii) on a per share basis[1] | $ (0.07) | $ (0.06) | $ (0.07) |
| (c) Net income (loss): | | | |
| (i) in total | $ (2,778,415) | $ (1,957,769) | $ (2,410,585) |
| (ii) on a per share basis[1] | $ (0.07) | $ (0.07) | $ (0.11) |
| (d) Total assets | $ 34,341,914 | $ 26,706,895 | $ 22,968,021 |
| (e) Total long-term financial liabilities | $ Nil | $ Nil | $ Nil |
| (f) Cash dividends declared per share | n/a | n/a | n/a |

[1] Per share amounts are calculated using the weighted average number of shares outstanding. Fully diluted loss per share amounts have not been calculated, as they would be anti-dilutive.

***Net sales or total revenues:***

As Diamondex has no producing properties, it has had no sales or revenues in any of the last three financial years.

***Loss from continuing operations:***

The $977,180 increase in the loss from continuing operations from 2002 to 2003 is largely attributable to the costs arising from the adverse decision of the arbitrator in respect of the arbitration proceeding brought against the Company by the joint venture partner for the Carat property, and an increase in stock-based compensation expense.

- The Company elected not to contest the arbitrator's decision, and accordingly, does not anticipate incurring additional costs on this matter.

# Financial Condition & Results of Operations



- Stock-based compensation expense will arise whenever stock options are granted in the future. The magnitude of the annual compensation expense is dependent upon the number of options granted, the term and exercise price of the options and other factors that cannot be predicted in advance of the date when the options are granted.

***Net loss:***

The increase in a given year's net loss over the loss from continuing operations for the same year is largely attributable to the write-off of mineral property acquisition costs and associated deferred exploration costs as the result of the abandonment of certain mineral properties. The write-offs in 2003, 2002 and 2001 were approximately $106,600, $353,300 and $1,211,700, respectively.

The Company's accounting policy is to capitalize all costs to acquire and explore mineral properties until the property to which they relate is placed into production, sold or abandoned. As abandonment decisions are largely driven by exploration results, the amounts written-off from year to year can be highly variable, and unpredictable in advance of the receipt of those results and other information relating to the underlying value of the properties in question.

***Total assets:***

The growth in total assets over the three year period 2001 - 2003 is largely the result of the capitalization of the exploration expenditures made on the Company's properties.

**3. Results of Operations**

Diamondex is in the business of exploring for, and where warranted, developing diamond deposits. The Company has no producing properties, and consequently no sales or revenues.

General and administrative expenses for the year ended December 31, 2003 totaled $2,595,019 (2002 - $1,617,839). The increase is largely attributable to two factors: stock compensation expense, and the legal costs associated with the arbitration case brought against Diamondex by the joint venture partner on the Carat claims.

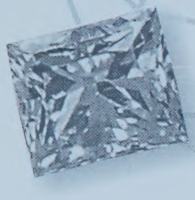
- The $397,004 in stock compensation expense incurred in 2003 is a non-cash charge that was allocated as to $379,334 to the consulting and corporate services expense category, as this amount represents the fair value of options granted to directors, and $17,670 was allocated to the wages and benefits expense category, representing the fair value of options granted to employees.

- The arbitration legal costs incurred in 2003 were $502,550. These were charged to the legal, audit and accounting expense category.

- The $55,085 increase in the interest and bank charges expense category in 2003 is the result of interest levied by the federal government under the "look-back" provisions applicable to flow-through funds. The interest expense arose from the renunciation of flow-through eligible exploration expenditures by the Company in favour of the flow-through investors in advance of the Company incurring those expenditures. For each month after March 1st in a particular year that the amount renounced for the prior year exceeds the cumulative incurred eligible expenditures, the excess is subject to interest.

**** Alexander Mackenzie set out hoping to find the Northwest Passage. On July 13, 1789, he reached the Arctic Ocean and was very disappointed to see pieces of ice flowing in the salty waters. He knew he had not found the Northwest Passage. He called the river "Disappointment River", and set out for home. The river was later re-named the "Mackenzie River" in honour of the explorer.***

# Management's Discussion & Analysis of



*** 2003 production data suggests that Canada is poised to become the world's third largest producer of diamonds, producing almost 15% of the world's diamonds by value. This would put Canada just ahead of South Africa, but behind Botswana and Russia.***

- The $25,683 increase in transfer agent and filing fees incurred in 2003 is the result of increased listing fees paid to the TSX Venture Exchange to list the shares issued in connection with financings completed during the year, and higher payments to the transfer agent, as a result of an increased level of activity in servicing the Company's account during the year.

- Approximately 25% of the $40,244 increase in wages and benefits from 2002 to 2003 is due to the increase in stock-based compensation expense (2003 - $17,670, 2002 - $7,800) allocated to wages and benefits. The remaining increase is attributable to salary adjustments, and increases in the cost of group insurance premiums.

Diamondex spent $6,670,307 in acquiring and exploring its properties during 2003, all of these expenditures were deferred. Particulars on the nature of these expenditures, and the properties on which they were incurred, are set out in notes 4 and 5 to the audited financial statements.

The Company holds several claim blocks in the Northwest Territories, particularly in the southern Slave geologic province, the region that hosts Canada's two producing diamond mines, (Ekati and Diavik), as well as the Snap Lake diamond deposit, which is owned by De Beers Canada Mining Inc. The Snap Lake deposit is an advanced-stage project for which government agencies are processing applications for operating permits. Several of the Company's properties (Athenia, Bear Head, Hilltop, King, King East and Kingfish) are contiguous to De Beers' Camsell Lake claim block which hosts the Snap Lake deposit. The Company also holds prospecting permits covering over six million acres in the Northwest Territories, known as the Lena West property. In early February 2004, Diamondex was granted two additional prospecting permits, covering approximately 73,000 acres, located in the Boothia Peninsula area, approximately 175 kilometres northwest of Repulse Bay, Nunavut.

Broadly speaking, except for the Peregrine and Heeqou properties (located in the Coronation Gulf area of Nunavut), most of the 2003 exploration expenditures were directed at two geographic areas: the Lena West property, and the Company's properties contiguous to De Beers' Snap Lake deposit.

As diamonds are commonly found in association with a type of rock known as kimberlite, locating of kimberlites is a key element in most diamond exploration strategies. The search for kimberlites involves the collection of till samples at or near the earth's surface and the interpretation of geophysical and geochemical data to identify anomalous zones, which may be an indication of the presence of kimberlite. Anomalous zones with favourable characteristics are then tested by diamond drilling, to obtain samples at depth to determine the presence of kimberlite and the possibility of its being diamondiferous.

***Lena West Property:***

On a specific property basis, the Lena West property saw the largest exploration expenditures during 2003. These expenditures amounted to $2,636,194, of which $1,416,106 was for field sampling, and $699,623 was for geophysical/geochemical work. The field sampling program at Lena West consisted primarily of a stream sediment reconnaissance program, designed with assistance from the Company's technical advisors at the

Diamond Research Institute, located in Novosibirsk, Siberia.

The reconnaissance program at Lena West was designed to take advantage of the project area's well-developed drainage systems, using procedures developed by the Russians over several decades in the course of their discovery of the Siberian diamond fields. During the 2003 field season, a total of 1,054 stream sediment samples were collected by three exploration teams floating down all navigable rivers and streams within the Lena West permit area. Panning of samples at collection sites expedited the search for kimberlite indicator minerals ("KIMs") and immediate follow-up of encouraging results by a helicopter supported crew, shortening by many months the time typically required to initiate such follow-up work. In addition, an airborne geophysical survey consisting of almost 64,000 line-kilometres was flown over the northernmost two-thirds of the property. Preliminary data generated from this survey has revealed several promising targets.

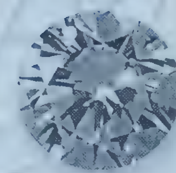
All of the samples collected in the reconnaissance sampling program have been processed, with encouraging results. Five diamonds ranging in size from 0.5mm to 1.5mm in the largest dimension have been recovered, and areas with significant concentrations of KIMs have been identified, including pyrope garnets up to 3mm in size. Chemical analysis and morphological studies at the Diamond Research Institute on the KIM grains recovered in the sampling program are nearing completion. The presence of both pyrope and ilmenite grains with little or no mechanical wear, with kelyphitic rims on some grains, is evidence that the sources of these materials are relatively close to the collection sites.

Diamondex has budgeted $3,500,000 to explore the Lena West property in 2004. The work plan includes a detailed high resolution, horizontal gradient airborne magnetic survey of the southern portion of the Lena West permit area, carried out late in the first quarter, and the evaluation and testing of several targets identified in the 2003 geophysical and sampling programs. Work on these targets is scheduled to start in the second quarter, and will include ground geophysics and an auger drill sampling program.

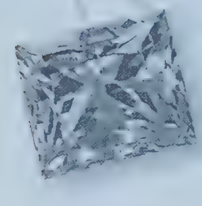
***Bear Head Property:***

The Bear Head property was the second largest recipient of exploration funds during 2003. A total of $1,122,938 was spent on airborne and ground geophysics, till sampling and drilling, bringing cumulative expenditures on this project to about $2.1 million. An eight hole diamond drill program accounted for slightly less than one-half ($480,372) of the expenditures on Bear Head in 2003. No kimberlite was intersected in any of the anomalies tested by the drill tests before the program was suspended due to the onset of severe weather conditions. The evaluation of the 2003 exploration data has led to a change in the strategy for exploring in the southern Slave geologic province, as it is now believed that a majority of the target kimberlite bodies are most likely present as dykes and sills, rather than pipes.

During the year, Diamondex abandoned 42 claims (104,583 acres) at Bear Head, reducing the size of the claim block to 106 claims (252,766 acres). The Company wrote off $10,458 in acquisition costs and $96,112 in deferred exploration costs associated with the claims that were abandoned.



**** By 2001, Canada was the sixth largest producer of diamonds in the world by value and the seventh largest by quantity.***



** The diamond mining industry was the largest contributor to capital expenditure in the mining and oil and gas extraction sector of the Northwest Territories between 1998-2002. Diamond mining accounted for just over one-half of the $3.6 billion spent in this sector.*

A budget of $725,000 has been approved for the 2004 exploration program on the Bear Head property. The work, which is expected to commence late in the first quarter, will include up to 1,250 meters of diamond drilling designed to further evaluate eight targets identified in the 2003 exploration program, plus till sampling.

***Kingfish Property:***

The third largest 2003 exploration program was carried out on the Kingfish property, where expenditures totaled $652,004, with over 59% of the funds being spent on airborne and ground geophysics. Five high priority geophysical targets were identified by the airborne geophysical program. The till sampling program at Kingfish cost $151,102, with 291 samples being collected, of which less than two-thirds have been evaluated to date.

The exploration program for 2004 will consist of detailed ground geophysical surveys (magnetic, resistivity and gravity) on ten anomalies identified in the previous year's airborne geophysical survey, and the collection of approximately 400 till samples. The budget includes funding to complete up to 1,000 metres of drilling to evaluate high priority targets. The total budget has been estimated at $550,000.

***Hilltop Property:***

Deferred exploration costs on the Hilltop property during 2003 amounted to $459,049, of which $176,955 was for drilling, and $163,921 was for geophysics/geochemistry. Ground geophysical surveys were conducted over 16 anomalies indicated by previous airborne geophysical surveys. The property hosts a KIM train that measures 7 kilometres long by 1.5 kilometres wide. Four diamond drill tests were completed in an effort to identify the source of the train, but no kimberlite was intersected by the drilling, and the source remains unresolved.

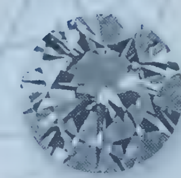
The 2004 exploration budget of $230,000 includes funding for the collection of 150 till samples, geophysical surveys on eight anomalies and up to 450 metres of diamond drilling.

***Peregrine Property:***

The Company holds a 70% interest in this property. Exploration expenditures in 2003 were approximately $329,000, the focus of the exploration effort being the collection of follow-up till samples, based on the sampling results from the 2002 field season. A total of 252 samples were collected during 2003, all of which have been picked.

The Company's share of the exploration budget for 2004 is $185,000, exclusive of drilling costs, most of which will be spent during the second quarter on detailed ground geophysical programs that further evaluate targets identified from previous airborne surveys. The work plan includes the collection of 200 till samples. The joint venture partners will be meeting to discuss the amount of diamond drilling that should be undertaken in 2004. A supplemental budget will be required if a drilling program is approved.

# Financial Condition & Results of Operations



***Carat Property:***

Exploration activity and expenditures on the Carat Property during 2003 were minimal, as the property was the subject of an arbitration proceeding brought against Diamondex by the joint venture partner. The joint venture partner recently announced an agreement to vend its 30% interest in this property to a third party, Majescor Resources Inc. ("Majescor"), with whom Diamondex has a 50:50 joint venture on the Gayot property in Quebec.

Majescor and Diamondex are discussing a work plan and budget for 2004. It is anticipated that the details of this program will be announced early in the second quarter.

***King Property:***

No new exploration was completed on this project in 2003. Field costs incurred were for equipment rentals, demobilization of a diamond drill and associated equipment, and completion of a seismic study. Non-field costs were primarily an "in lieu" cash payment to retain the claims.

The 2004 exploration program will include a detailed airborne magnetic survey (50m line spacing) totaling 5,000 line kilometres over the southern two-thirds of the property. The $250,000 budget includes the cost of constructing an ice road spur into the King camp, to establish a fuel cache to serve all of the Company's properties in the southern Slave region, plus land retention payments of approximately $25,000.

***Other Properties:***

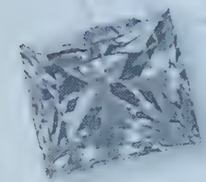
Exploration expenditures during 2003 on the nine other properties in which Diamondex holds an interest totaled approximately $1,247,000. Work on these properties involved a variety of activities, including drilling, geophysics, geochemistry, collection of till samples, and laboratory analysis of such samples. An "in lieu" cash payment of $151,704 was made on the Kelsey claims in order to retain these claims for another year.

The 2004 work plans and budgets for eight of these properties have not been finalized, as the results of the 2003 exploration programs are still being assessed. However, the work to be carried out will include some or all of the following activities: additional till sampling to increase the sampling density, airborne and/or ground geophysical surveys, and diamond drilling. On the ninth property, the Gayot joint venture in northern Quebec, in which Diamondex holds a 50% interest, a work plan and budget have been agreed with Majescor, the operator of that joint venture. Thirteen targets identified in a recently completed airborne magnetic/resistivity geophysical survey have been selected for ground follow-up. Up to five of these targets will be drill tested under the 2004 work plan, the budget for which (100% basis) is $300,000.

***Inflation:***

While inflation has not been a significant factor affecting the cost of goods and services in Canada in recent years, the sharp escalation in commodity prices that has occurred since mid-2003 has resulted in a resurgence in the amount of money being invested in exploration companies. Exploration budgets for base and precious metals, and diamonds, have increased significantly. This has resulted in a shortage of experienced technical staff, and heavy demand for drillers, geophysical surveys and other goods and services needed by the exploration community.

**** By 2002, 43% of Canadian diamond exploration was occurring in the Northwest Territories, 20% in Nunavut and another 20% in Ontario.***



**** In Nunavut, there is generally snow on the ground for 9-10 months of the year and it can snow during any month. Average winter temp. - 28 C, avg. summer temp. + 10 C. The area is actually an arctic desert with an average of 4 inches of precipitation a year.***

Although it is difficult at this stage to quantify the effect of the increased demand for the goods and services that Diamondex uses in its exploration programs, there is anecdotal evidence that the cost escalations during the upcoming field season will be considerably higher than the rate of inflation prevailing in other sectors of the economy. Exploration companies can also expect to experience difficulty in scheduling drilling contracts, airborne geophysical surveys and other services to be performed at the times that would be most convenient for the exploration companies.

***Taxes:***

Provision has been made in the 2003 accounts for future income taxes of $1,878,000. This provision has been made in accordance with Canadian accounting guidelines. It largely reflects a potential tax liability to Diamondex of "flow-through" funds raised by the Company, as well as the Canadian Exploration Expense credit accrued by Diamondex to December 31, 2003. As the Company makes exploration expenditures eligible for flow-through funding during 2004, an additional future income tax liability will be applied against Capital Stock. Under the Company's current business plan, Diamondex does not anticipate paying tax on the portion of its exploration activities for which this flow-through tax liability has been accrued. However, if one or more properties are sold prior to discharging flow-through tax liabilities, the Company may be liable for some or all of this tax.

## 4. Summary of Quarterly Results

The following tables summarize information derived from the Company's financial statements for each of the eight most recently completed quarters:

| **Quarter Ended:** / **Year** | **Dec. 31 2003** | **Sep. 30 2003** | **Jun. 30 2003** | **Mar. 31 2003** | **Dec. 31 2002** | **Sep. 30 2002** | **Jun. 30 2002** | **Mar. 31 2002** |
|---|---|---|---|---|---|---|---|---|
| (a) Net sales or total revenue | $ Nil | $ Nil | $ Nil | $ Nil | $ Nil | $ Nil | $ Nil | $Nil |
| (b) Income (loss) from continuing operations: | | | | | | | | |
| (i) in total (000s) | $(1,367) | $ (338) | $ (509) | $ (381) | $ (494) | $ (361) | $ (402) | $ (361) |
| (ii) on a per share basis[1] | $ (0.04) | $(0.01) | $(0.01) | $(0.01) | $(0.01) | $(0.01) | $(0.01) | $(0.01) |
| (c) Net income or loss: | | | | | | | | |
| (i) in total (000s) | $(1,578) | $ (330) | $ (504) | $ (366) | $ (838) | $ (361) | $ (401) | $ (358) |
| (ii) on a per share basis[1] | $ (0.04) | $(0.01) | $(0.02) | $(0.01) | $(0.02) | $(0.01) | $(0.01) | $(0.01) |

[1] Per share amounts are calculated using the weighted average number of shares outstanding. Fully diluted loss per share amounts have not been calculated, as they would be anti-dilutive.

***Fourth Quarter 2003 Results:***

The substantial increase in the quarterly loss from continuing operations for the fourth quarter of 2003 is due to two factors: (i) a year-end adjustment of $397,004 (2002 - $23,190) to book as stock compensation expense the fair value of incentive stock options granted to directors and employees during the third and fourth quarters of 2003, and (ii) the financial ramifications of the adverse decision of the arbitrator in the arbitration case brought against Diamondex in 2002 by its joint venture partner on the Carat property.

Diamondex elected not to appeal the arbitrator's decision. As a consequence, the Company accrued $284,675 for legal fees incurred by the joint venture partner during the arbitration proceedings. The accrual was booked to the legal, accounting and audit expense category on the Statement of Operations and Deficit in the fourth quarter and was paid after the end of the year. The Company's own legal costs incurred on the arbitration proceedings ($217,875) were also booked to this expense category. In addition, the Company refunded $261,572 to the joint venture partner for payments the partner had made against the invoices that were the subject of the arbitration proceedings, which refund was booked to deferred exploration costs for the Carat property.

**5. Liquidity and Capital Resources**

Diamondex has no operations that generate cash flow. The Company's financial success relies on management's ability to find economically viable diamond deposits. This process can take many years, and is largely based on factors that are beyond the control of Diamondex.

In order to finance its exploration activities and corporate overhead, the Company is dependent on investor sentiment remaining positive towards the diamond exploration business generally, and Diamondex in particular, so that funds can be raised through the sale of the Company's securities. Many factors have an influence on investor sentiment, including a positive climate for mineral exploration, a company's track record and the experience and caliber of a company's management. There is no assurance that equity funding will be accessible to Diamondex at the times and in the amounts required to fund the Company's activities.

Diamondex has financed its activities by the private placement of securities. These private placements have typically been non-brokered and have consisted of a combination of flow-through and non-flow-through securities.

Debt financing has not been used to fund property acquisitions and exploration that Diamondex conducts for its own account, and the Company has no current plans to use debt financing.

***Cash and Financial Condition:***

The Company's cash position (including restricted cash) was $6,148,933 at December 31, 2003 (2002 - $5,127,153). The restricted cash component was $5,618,436 at December 31, 2003 (2002 - $4,295,248). Restricted cash consists of monies posted as performance bonds for prospecting permits, and funds allocated for use as eligible exploration expenditures on Canadian resource properties as specified in the Income Tax Act.

The Company's working capital was $5,813,363 as at December 31, 2003 (2002 - $4,816,743).

Diamondex has no debt, does not have any unused lines of credit or other arrangements in place to borrow funds, and has no off-balance sheet arrangements. Diamondex does not use hedges or other financial derivatives.

**** In Inuktitut, the Inuit language, Nunavut means "our land" and Iqaluit means "the place where the fish are".***

# Management's Discussion & Analysis of

***Investing Activities:***

During 2003, the Company's cash flow from investing activities was $8,041,523 (2002 - $9,419,116), of which $6,607,172 (2002 - $4,902,444) was for exploration costs that were deferred and $1,323,188 (2002 - $4,295,248) was for restricted cash. As discussed under item 3 - Results of Operation, above, Diamondex spent approximately $2.6 million on exploring the Lena West permit area in 2003, which represents 40% of the Company's total exploration expenditures during that year.

There were no material differences in the actual use of proceeds from the Company's previous disclosure in this regard.

***Financing Activities:***

During 2003, the Company completed two private placement financings, issuing a total of 8,523,134 shares for gross proceeds of $6,517,351. A total of 4,267,811 warrants were converted into shares at various times throughout the year, for an aggregate of $3,563,090, and 50,000 stock options were exercised for $40,000. Diamondex also issued 183,180 shares valued at $137,385 as a portion of the finders' fee payable on one of the private placements completed during the year. By comparison, in 2002, Diamondex completed a single private placement of 7,423,668 shares for gross proceeds of $5,567,751. A total of 643,749 warrants were converted into shares during 2002, for an aggregate of $502,283, and 85,000 stock options were exercised, for $64,250.

As at December 31, 2003, Diamondex had 48,987,332 shares outstanding.

***Outlook:***

It is anticipated that for the foreseeable future, Diamondex will rely on the equity markets to meet its financing needs.

The Board of Directors has approved a budget for 2004 that provides for expenditures of $5.4 million on exploration of the Company's properties, and $1.3 million for corporate overhead costs. Of the exploration expenditures, $3.2 million has been budgeted for the Lena West project. Net expenditures at Lena West are expected to be $2.6 million, as the Company anticipates receiving approximately $0.6 million in the third quarter, being a refund of the performance bond that was posted in early 2003. Expenditures on the Bear Head, Kingfish, Kelsey and King properties have been budgeted at approximately $725,000, $450,000, $315,000 and $250,000, respectively, with approximately $460,000 allocated to all of the other properties combined.

Management and the Board will review the approved work plans and budgets for the various exploration projects at regular intervals throughout the year, and may make revisions to the budgets for individual projects in response to exploration success (or the lack thereof) on such projects.

Working capital should be adequate to fund the Company's activities into the third quarter of 2004. It is anticipated that Diamondex will complete a financing some time before the end of the third quarter of 2004 to replenish the Company's working capital. Management is also continuously reviewing joint venture

**** Yukon, Nunavut, Alberta, Saskatchewan, parts of Manitoba, Ontario, and Quebec all were once part of the Northwest Territories.***

proposals respecting the Company's exploration projects. Joint venturing provides a means of funding further work to advance specific projects, albeit using a method that could result in a greater dilution of the shareholders' interest in those specific projects than might occur if Diamondex were to raise funds through the issuance of shares.

Diamondex has renegotiated its office lease with effect from January 1, 2004. The space under lease has been expanded by approximately 35%, to accommodate future growth in the Company's technical staff, and to provide larger layout areas for maps and drawings. While the annual lease payments are scheduled to increase in absolute amounts, rental expense on a per square foot basis will decrease by approximately 10%.

***Outstanding share data as at March 15, 2004:***

Diamondex has 49,680,152 shares outstanding, or 65,859,046 shares on a fully diluted basis. If the Company were to issue all 16,178,894 shares issuable upon conversion of all warrants and exercise of all incentive stock options outstanding, it would raise approximately $18,150,000.

There are a total of 7,396,000 warrants outstanding having a conversion price of $1.25 per share that will expire on December 31, 2004. If these warrants were to be converted, it would put an additional $9,245,000 into the Company's treasury. If exercised, it is anticipated that these funds would be more than sufficient to fund the Company's activities in 2005. There are an additional 4,012,894 warrants outstanding with a conversion price of $0.85 per share that expire on March 8, 2005.

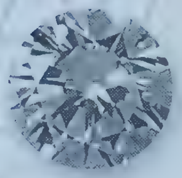
There are 4,770,000 stock options outstanding under the Company's incentive stock option plan. The stock options are exercisable at prices ranging from $0.80 to $1.75, with expiry dates ranging to February 8, 2009.

**6. Transactions with related parties**

Diamondex has an arrangement with a company controlled by a director to reimburse that company for costs incurred by it to provide accounting and administrative services, corporate development activities, shareholder communication services, and travel arrangements. Amounts paid or accrued in this regard during 2003 were $261,345 (2002 - $236,716).

Pursuant to a Management Agreement dated September 1, 2000 between Diamondex and Rand Explorations Ltd. ("Rand"), the Company retained Rand to provide the services of Mr. Turner to act as the Company's chief executive officer and as a geological consultant to Diamondex. The Management Agreement stipulates that Rand will be paid an annual fee of $180,000 plus G.S.T. The fee is subject to adjustment to reflect the annual percentage increase in the Consumer Price Index. The agreement also provides that the fee will be reviewed annually, and that the contract may be cancelled by either party for cause. The amount paid or accrued in 2003 was $189,620 (2002 - $185,388). Pursuant to an amendment dated December 11, 2002, the term of the Management Agreement was extended so that the term expires on September 1, 2007.

Diamondex paid or accrued $70,217 (2002 - $73,044) for legal services to a law firm in which the secretary of the Company is a partner, and paid or accrued $28,175 (2002 - $Nil) for services of the individual who has served as the Company's chief financial officer since July 2003.



**** From January 2003 to June 2003, Canada's total trade in diamonds was worth just over $720 million.***

# Management's Discussion & Analysis of Financial Condition & Results of Operations

** Mackenzie River is the longest river in Canada. Great Bear Lake is the eighth-largest in the world. Great Slave Lake is the deepest lake in Canada and tenth-largest in the world.*

These transactions are in the normal course of operations and are measured at the agreed amount, which is the amount of consideration established and agreed to with the related parties.

## 7. Risk factors relating to the Company's business

The marketability of diamonds, as for other minerals, may be affected by many factors beyond the capacity of the Company to control, and events that cannot be accurately predicted, such as markets for diamonds, weather, environmental factors, and government regulations relating to health, safety and the environment, the scale and scope of royalties and taxes on production, and demands for "value added" processing of rough diamonds in northern Canada.

***Weather:***

The Company's exploration activities share many of the risks attendant with other exploration projects in Canada. Diamond exploration occurs in remote areas with primitive or non-existent infrastructure, forcing companies to rely heavily on air transport for the supply of goods and services. Air transport in the North is particularly susceptible to disruptions due to adverse weather conditions, resulting in unavoidable delays in the execution of exploration programs and/or cost overruns.

***Environmental factors:***

There is no assurance that environmental regulations will not change in a manner that could have an adverse effect on the Company's financial condition, liquidity or results of operations. Environmental legislation is constantly expanding and evolving in ways that impose stricter standards and more rigorous enforcement, with higher fines and more severe penalties for non-compliance, and increased scrutiny of proposed projects. There is an increased level of responsibility for companies, and a trend towards criminal liability for officers and directors for violations of environmental laws, whether inadvertent or not.

***Competition and agreements with other parties:***

There is intense competition within the minerals industry to acquire properties of merit, and Diamondex competes with other companies possessing greater technical and financial resources than itself. The level of competition has increased over the last several months, as many other junior exploration companies have recently been able to get financing. This could adversely affect the Company's ability to acquire promising properties for future exploration.

Diamondex could find itself in a position at a future time where it is unable to fund its share of costs incurred under joint venture agreements to which it is a party, and its interest in such joint ventures could be reduced or eliminated as a result. Conversely, if another participant in a joint venture agreement to which Diamondex is a party is unable to fund its share of an approved work program, Diamondex may be unable fund the other participant's share of such program due to insufficient funding, in which case the program may not achieve the desired goal.

# Diamondex Resources Ltd.
# 2003 Financial Statements

*year ended December 31*

# Auditor's Report

To the Shareholders of
Diamondex Resources Ltd.

We have audited the balance sheets of Diamondex Resources Ltd. as at December 31, 2003 and 2002 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act of British Columbia, we report that, in our opinion, except for the change in accounting for stock-based compensation, these principles have been applied on a consistent basis.

Davidson & Company

Chartered Accountants

Vancouver, Canada
February 13, 2004

# Balance Sheets

DIAMONDEX RESOURCES LTD.
TSX: DSF

*as at December 31*

| | 2003 | 2002 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and equivalents | $ 530, 497 | $ 831,905 |
| Restricted cash (Note 11) | 5,618,436 | 4,295,248 |
| Marketable securities | 1,700 | 1,700 |
| Receivables | 55,749 | 205,839 |
| Prepaid expenses and deposits | 238,231 | - |
| | 6,444,613 | 5,334,692 |
| **Property and equipment** (Note 3) | 263,993 | 302,632 |
| **Mineral properties** (Note 4) | 1,104,632 | 1,051,955 |
| **Deferred exploration costs** (Note 5) | 26,528,676 | 20,017,616 |
| | $ 34,341,914 | $ 26,706,895 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | $ 631,250 | $ 517,949 |
| **Future income taxes** (Note 11) | 1,878,000 | 2,866,000 |
| | 2,509,250 | 3,383,949 |
| **Shareholders' equity** | | |
| Capital stock (Note 6) | 39,392,237 | 29,344,560 |
| Contributed surplus (Note 6) | 1,263,646 | 23,190 |
| Deficit | (8,823,219) | (6,044,804) |
| | 31,832,664 | 23,322,946 |
| | $ 34,341,914 | $ 26,706,895 |

**Nature and continuance of operations** (Note 1)

**Commitments** (Note 10)

**Subsequent events** (Note 14)

**On behalf of the Board:**

Randy C. Turner
*Director*

John A. McDonald
*Director*

*The accompanying notes are an integral part of these financial statements.*

DIAMONDEX RESOURCES LTD
TSX: DSP

# Statements of Operations and Deficit

*year ended December 31*

| | 2003 | 2002 |
|---|---|---|
| **EXPENSES** | | |
| Amortization | $ 86,667 | $ 90,043 |
| Consulting and corporate services | 721,740 | 355,359 |
| Corporate capital tax | - | 30,000 |
| Corporate development and media | 38,033 | 38,145 |
| Insurance | 38,850 | 35,444 |
| Interest and bank charges | 87,027 | 31,942 |
| Legal, audit and accounting | 630,146 | 149,545 |
| Office and miscellaneous | 76,840 | 68,615 |
| Printing | 55,493 | 49,625 |
| Rent | 189,398 | 182,567 |
| Shareholder relations | 93,980 | 77,880 |
| Transfer agent and filing fees | 55,613 | 29,930 |
| Travel and related costs | 156,287 | 154,043 |
| Wages and benefits | 364,945 | 324,701 |
| | (2,595,019) | (1,617,839) |
| **OTHER ITEMS** | | |
| Interest income | 17,351 | 116,811 |
| Other income | 28,994 | 1,910 |
| Write-down of receivables | (123,171) | (109,475) |
| Gain on sale of marketable securities | - | 4,135 |
| Write-off of mineral properties (Note 4) | (10,458) | - |
| Write-off of deferred exploration costs (Note 5) | (96,112) | (353,311) |
| | (183,396) | (339,930) |
| **Loss for the year** | (2,778,415) | (1,957,769) |
| **Deficit, beginning of year** | (6,044,804) | (4,087,035) |
| **Deficit, end of year** | $ (8,823,219) | $ (6,044,804) |
| **Basic and diluted loss per common share** | $ (0.07) | $ (0.07) |
| **Weighted average number of common shares outstanding** | 39,155,550 | 29,568,853 |

*The accompanying notes are an integral part of these financial statements.*

# Statements of Cash Flows

*year ended December 31*

| | 2003 | 2002 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Loss for the year | $ (2,778,415) | $ (1,957,769) |
| Items not affecting cash | | |
| Amortization | 86,667 | 90,043 |
| Stock-based compensation | 397,004 | 23,190 |
| Write-down of receivables | 123,171 | 109,475 |
| Gain on sale of marketable securities | - | (4,135) |
| Write-off of mineral properties | 10,458 | - |
| Write-off of deferred exploration costs | 96,112 | 353,311 |
| Changes in non-cash working capital items | | |
| Decrease in receivables | 26,919 | 817,730 |
| (Increase) decrease in prepaid expenses and deposits | (238,231) | 119,311 |
| Increase (decrease) in accounts payable and accrued liabilities | 113,301 | (6,226) |
| Net cash used in operating activities | (2,163,014) | (455,070) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Property and equipment acquired | (48,028) | (96,696) |
| Mineral properties | (63,135) | (180,846) |
| Deferred exploration costs | (6,607,172) | (4,902,444) |
| Deferred exploration costs recovered | - | 40,083 |
| Proceeds from sale of marketable securities | - | 16,035 |
| Restricted cash | (1,323,188) | (4,295,248) |
| Net cash used in investing activities | (8,041,523) | (9,419,116) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Capital stock, net of issuance costs | 9,903,129 | 5,679,679 |
| Net cash provided by financing activities | 9,903,129 | 5,679,679 |
| **Decrease in cash position during the year** | (301,408) | (4,194,507) |
| **Cash position, beginning of year** | 831,905 | 5,026,412 |
| **Cash position, end of year** | $ 530,497 | $ 831,905 |
| **Cash paid for interest expense** | $ 15,232 | $ 3,942 |
| **Cash paid for income taxes** | $ - | $ - |

**Supplement disclosure with respect to cash flows (Note 9)**

*The accompanying notes are an integral part of these financial statements.*

# Notes to the Financial Statements

## 1. NATURE AND CONTINUANCE OF OPERATIONS

The Company is incorporated under the Company Act of the Province of British Columbia and is considered to be in the exploration stage with respect to its interest in mineral properties. Based on the information available to date, the Company has not yet determined whether its mineral properties contain economically recoverable ore reserves.

The recovery of the amounts comprising mineral properties and deferred exploration costs is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their exploration and development and upon future profitable production.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

| | 2003 | 2002 |
|---|---|---|
| Deficit | $(8,823,219) | $(6,044,804) |
| Working capital | 5,813,363 | 4,816,743 |

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Cash and equivalents

Cash and equivalents include highly liquid investments with original maturities of three months or less.

### Marketable securities

Marketable securities are recorded at the lower of cost or market value. As at December 31, 2003, the market value of marketable securities was $3,150 (2002 - $2,200).

### Property and equipment and amortization

Property and equipment is recorded at cost less accumulated amortization. Amortization is recorded at the following annual rates and methods:

| | |
|---|---|
| Furniture and equipment | 20% declining basis |
| Computer equipment | 30% declining basis |
| Field supplies and equipment | 20% declining basis |
| Leasehold improvements | 5 years straight-line |

### Mineral properties

The Company records its interests in mineral properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be an impairment. These costs will be amortized on the basis of units produced in relation to the proven reserves available on the related property following commencement of production. A mineral property that is sold before that property reaches the production stage will have all revenues from the sale of the property credited against the cost of the property. A property that has reached the production stage will have a gain or loss calculated based on the portion of that property sold.

The recorded cost of mineral exploration interests is based on cash paid, the assigned value of share considerations and exploration and development costs incurred. The recorded amount may not reflect recoverable value as this will be dependent on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

### Deferred exploration costs

The Company defers all expenditures directly attributable to the exploration and development of mineral properties, pending a decision as to the commercial viability of a property or until management has determined there to be an impairment. If reserves are developed, the deferred costs will be amortized to operations when production is commenced on the property. Such amortization will be computed on the basis of units produced in relation to the estimated reserves. Upon abandonment or sale of a project, all deferred costs relating to the project will be expensed in the year of abandonment or sale.

**Values**

The amounts shown for mineral properties and deferred exploration costs represent costs to date, and do not necessarily represent present or future values as they are entirely dependent upon the economic recovery of current and future reserves.

**Cost of maintaining mineral properties**

The Company does not accrue the estimated future costs of maintaining its mineral properties in good standing.

**Environmental protection and rehabilitation costs**

Liabilities related to environmental protection and rehabilitation costs are accrued and charged to income when their likelihood of occurrence is established. This includes future removal and site restoration costs as required due to environmental law or contracts.

**Stock-based compensation**

Effective January 1, 2002, the Company adopted the new CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments", which requires that stock options granted to employees and non-employees be accounted for at fair value. This section also permits, and the Company adopted, the use of the intrinsic value-based method for valuing stock options granted to employees. Under this method, compensation cost for options granted to employees is recognized only when the market price exceeds the exercise price at date of grant. However, pro-forma disclosure of earnings and earnings per share as if the fair value method had been adopted is required.

During the current year, the Company adopted, on a prospective basis, the fair value based method of accounting for all stock-based compensation.

**Future income taxes**

Future income taxes are recorded using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**Flow-through common shares**

Resource expenditure deductions for income tax purposes related to exploration activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian income tax legislation. Capital stock is reduced and future income tax liability is increased by the estimated tax benefits that are transferred to the investors.

**Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

Loss per share is calculated using the weighted-average number of shares outstanding during the year. For the years presented, existing stock options and share purchase warrants have not been included in the computation of diluted loss per share because to do so would be anti-dilutive.

**Comparative figures**

Certain comparative figures have been reclassified to conform with the current year's presentation.

## 3. PROPERTY AND EQUIPMENT

| | 2003 | | | 2002 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Furniture and equipment | $167,195 | $ 72,377 | $ 94,818 | $ 82,388 | $ 26,234 | $ 56,154 |
| Computer equipment | 108,389 | 37,792 | 70,597 | 145,168 | 38,349 | 106,819 |
| Field supplies and equipment | 53,037 | 19,134 | 33,903 | 53,037 | 10,658 | 42,379 |
| Leasehold improvements | 163,018 | 98,343 | 64,675 | 163,018 | 65,738 | 97,280 |
| | $491,639 | $227,646 | $263,993 | $443,611 | $140,979 | $302,632 |

# Notes to the Financial Statements

**4. MINERAL PROPERTIES**

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

The Company holds interests in various mineral claims as follows:

| | 2003 | 2002 |
|---|---|---|
| **Athenia Claims, Northwest Territories, Canada** | | |
| A 55% interest, subject to a 4% gross overriding royalty and a 2% net smelter returns royalty | $ 45,000 | $ 45,000 |
| **Hilltop Claims, Northwest Territories, Canada** | | |
| A 100% interest. | 167,631 | 167,631 |
| **Carat Claims, Northwest Territories, Canada** | | |
| A 70% interest. | 132,772 | 132,772 |
| **Cache Claims, Northwest Territories, Canada** | | |
| An 80% interest. | 85,139 | 85,139 |
| **King Claims, Northwest Territories, Canada** | | |
| A 100% interest. | 20,787 | 20,787 |
| **Kingfish Claims, Northwest Territories, Canada** | | |
| A 100% interest. | 63,135 | - |
| **Lena West Permits, Northwest Territories, Canada** | | |
| A 100% interest. | - | - |
| **Aylmer Lake West Claims, Northwest Territories, Canada** | | |
| A 45.1% interest, subject to a 3.5% gross overriding royalty. | 12,302 | 12,302 |
| **Kelsey Claims, Northwest Territories, Canada** | | |
| A 67% interest. | 200,766 | 200,766 |
| **Bear Head Claims, Northwest Territories, Canada** | | |
| A 100% interest. During current year, certain claims lapsed and were written-off to statement of operations | 25,385 | 35,843 |
| **Ajax Claims, Northwest Territories, Canada** | | |
| A 100% interest. | 47,698 | 47,698 |
| **Czar Claims, Northwest Territories, Canada** | | |
| A 100% interest. | 13,220 | 13,220 |
| **Gayot Claims, Quebec, Canada** | | |
| In fiscal 2002, the Company entered into an agreement with Majescor Resources Inc to acquire a 50% interest in certain claims. All exploration costs will be shared on a 50:50 basis. | 61,570 | 61,570 |
| **Peregrine Claims, Nunavut, Canada** | | |
| A 70% interest. The property is subject to a 2% gross overriding royalty and a 2% net smelter returns royalty. The Company holds an option to reduce these royalties by 1% for a $2,000,000 cash payment. | 170,869 | 170,869 |
| **Heeqou Claims, Nunavut, Canada** | | |
| A 100% interest. | 58,358 | 58,358 |
| | $1,104,632 | $1,051,955 |

## 5. DEFERRED EXPLORATION COSTS

| 2003 | Bear Head | Cache | Carat | Kingfish | Lena West | Heeqou | Hilltop | Kelsey | King | Peregrine | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance, beginning of year | $ 1,103,551 | $ 330,750 | $ 2,671,680 | $ - | $ - | $ 328,047 | $ 4,350,879 | $ 1,788,956 | $ 5,951,504 | $ 1,129,842 | $ 2,362,407 | $ 20,017,616 |
| Data management | 1,864 | 416 | 1,404 | 7,213 | 26,107 | 3,027 | 675 | 2,134 | 1,283 | 2,400 | 20,539 | 67,062 |
| Drilling | 480,372 | 123,460 | 29 | - | - | - | 176,955 | - | 49,492 | - | 508 | 830,816 |
| Field sampling | 83,854 | 4,211 | - | 151,102 | 1,416,106 | 72,446 | 7,639 | 12,551 | 1,914 | 138,920 | 61,775 | 1,950,518 |
| Geology | 24,827 | 2,293 | 286 | 40,651 | 23,390 | 6,924 | 9,052 | 1,251 | 2,058 | 25,562 | 37,498 | 173,792 |
| Geophysics and geochemistry | 347,790 | 120,721 | 1,178 | 386,695 | 699,623 | 5 | 163,921 | 106,025 | 2,972 | 10,778 | 6,567 | 1,846,275 |
| Lab costs | 72,292 | - | 881 | 49,942 | 261,288 | 81,376 | 2,238 | 1,056 | 2,725 | 125,711 | 93,154 | 690,663 |
| Land retention and use | 73,652 | 24,649 | 3,024 | 4,925 | 29,630 | 2,895 | 82,499 | 151,704 | 28,833 | 3,679 | 14,098 | 419,588 |
| Other | 145 | - | - | - | 47,549 | 1,873 | - | - | - | 2,687 | 249,664 | 301,918 |
| Planning and data evaluation | 30,124 | 3,622 | 455 | 11,115 | 131,466 | 5,226 | 12,509 | 7,863 | 2,333 | 12,634 | 20,082 | 237,429 |
| Report preparation | 8,018 | 705 | 208 | 361 | 1,035 | 775 | 3,561 | 1,673 | 5,361 | 6,632 | 4,049 | 32,378 |
| Seismic | - | - | - | - | - | - | - | - | 56,733 | - | - | 56,733 |
| | 1,122,938 | 280,077 | 7,465 | 652,004 | 2,636,194 | 174,547 | 459,049 | 284,257 | 153,704 | 329,003 | 507,934 | 6,607,172 |
| Written off during the year | (96,112) | - | - | - | - | - | - | - | - | - | - | (96,112) |
| | 1,026,826 | 280,077 | 7,465 | 652,004 | 2,636,194 | 174,547 | 459,049 | 284,257 | 153,704 | 329,003 | 507,934 | 6,511,060 |
| Balance, end of year | $ 2,130,377 | $ 610,827 | $ 2,679,145 | $ 652,004 | $ 2,636,194 | $ 502,594 | $ 4,809,928 | $ 2,073,213 | $ 6,105,208 | $ 1,458,845 | $ 2,870,341 | $ 26,528,676 |

| 2002 | Bear Head | Cache | Carat | Heeqou | Hilltop | Kelsey | King | Peregrine | Other | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance, beginning of year | $ 681,254 | $ 295,602 | $ 2,652,800 | $ - | $ 4,038,446 | $ 1,583,107 | $ 4,768,739 | $ 9,317 | $ 1,479,301 | $ 15,508,566 |
| Data management | 6,525 | 218 | 2,708 | 1,289 | 2,519 | 1,407 | 5,281 | 2,922 | 19,228 | 42,097 |
| Drilling | 3,824 | - | - | - | 26,207 | 109 | 748,355 | - | 191,000 | 969,495 |
| Field sampling | 95,301 | 1,044 | 3,198 | 224,898 | 60,754 | 12,170 | 55,455 | 346,808 | 456,970 | 1,256,598 |
| Geology | 35,570 | 1,823 | 28,078 | 16,142 | 27,365 | 5,765 | 55,587 | 41,386 | 94,464 | 306,180 |
| Geophysics and geochemistry | 129,269 | - | 2,668 | 1,300 | 117,724 | 7,925 | 211,158 | 605,347 | 182,780 | 1,258,171 |
| Lab costs | 136,419 | 2,258 | 13,334 | 79,156 | 42,516 | 50,188 | 62,417 | 108,131 | 174,709 | 669,128 |
| Land retention and use | 4,021 | 29,392 | 235 | 3,241 | 22,373 | 120,626 | 17,366 | 7,806 | 26,528 | 231,588 |
| Planning and data evaluation | 10,720 | 379 | 7,395 | 2,021 | 10,943 | 2,578 | 3,162 | 8,067 | 79,203 | 124,468 |
| Report preparation and drafting | 648 | 34 | 1,347 | - | 2,032 | 5,081 | 23,984 | 58 | 11,535 | 44,719 |
| | 422,297 | 35,148 | 58,963 | 328,047 | 312,433 | 205,849 | 1,182,765 | 1,120,525 | 1,236,417 | 4,902,444 |
| Written-off during the year (Note 10) | - | - | - | - | - | - | - | - | (353,311) | (353,311) |
| Costs recovered | - | - | (40,083) | - | - | - | - | - | - | (40,083) |
| | 422,297 | 35,148 | 18,880 | 328,047 | 312,433 | 205,849 | 1,182,765 | 1,120,525 | 883,106 | 4,509,050 |
| Balance, end of year | $ 1,103,551 | $ 330,750 | $ 2,671,680 | $ 328,047 | $ 4,350,879 | $ 1,788,956 | $ 5,951,504 | $ 1,129,842 | $ 2,362,407 | $ 20,017,616 |

## 6. CAPITAL STOCK AND CONTRIBUTED SURPLUS

| | Number of Shares | Capital Stock | Contributed Surplus |
|---|---|---|---|
| Authorized | | | |
| 100,000,000 common shares, without par value | | | |
| 50,000,000 preferred shares, without par value | | | |
| Common shares issued | | | |
| Balance as at December 31, 2001 | 27,810,790 | $ 24,790,881 | $ - |
| Issued for cash | 8,152,417 | 6,134,284 | - |
| Share issue costs | - | (454,605) | - |
| Future income taxes on exploration costs renounced to shareholders | - | (1,728,000) | - |
| Future income taxes recovered | - | 602,000 | - |
| Stock-based compensation | - | - | 23,190 |
| Balance as at December 31, 2002 | 35,963,207 | 29,344,560 | 23,190 |
| Issued for cash | 12,840,945 | 9,372,754 | 747,687 |
| Finders' fee | 183,180 | 137,385 | 95,765 |
| | - | (274,770) | - |
| Share issue costs | - | (175,692) | - |
| Future income taxes on exploration costs renounced to shareholders | - | (257,000) | - |
| Future income taxes recovered | - | 1,245,000 | - |
| Stock-based compensation | - | - | 397,004 |
| Balance as at December 31, 2003 | 48,987,332 | $ 39,392,237 | $ 1,263,646 |

# Notes to the Financial Statements

On September 8, 2003, the Company issued 6,023,134 units at a price of $0.75 per unit in a non-brokered private placement. A total of 4,371,800 units were sold as "flow-through" securities and 1,651,334 units were sold as "non-flow-through" securities. The flow-through units consisted of one common share plus one-half of a common share purchase warrant. The non-flow-through units consisted of one common share plus one common share purchase warrant. Each whole common share purchase warrant is exercisable into an additional common share upon payment of $0.85 per share until March 8, 2005. The share purchase warrants issued as part of this private placement have been recorded at a fair value of $747,687, which is included in contributed surplus. Finders' fees included the Company paying $137,385, issuing 183,180 common shares at a value of $137,385 and issuing 488,480 warrants exercisable into additional common shares at $0.85 per share until March 8, 2005. The finders' warrants have been recorded at a fair value of $95,765, which is included in contributed surplus.

On December 29, 2003, the Company completed a non-brokered private placement and issued 2,500,000 common shares as "flow-through" securities at a price of $0.80 per common share. No warrants were issued in connection with this financing.

During the current year, the Company issued 4,317,811 common shares pursuant to the exercise of stock options and share purchase warrants.

## 7. STOCK OPTIONS AND WARRANTS

### Stock options

The Company has a stock option plan in place under which it is authorized to grant options to directors and employees to acquire up to 6,000,000 common shares. Under the plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant less the applicable discount. The options can be granted for a maximum term of 10 years.

As at December 31, 2003, the Company had outstanding stock options, enabling the holders to acquire further common shares as follows:

| Number of Shares | Exercise Price | Expiry Date |
|---|---|---|
| 100,000 | $ 0.88 | January 13, 2005 |
| 480,000 | 1.00 | November 3, 2005 |
| 1,010,000 | 1.35 | January 25, 2006 |
| 200,000 | 1.40 | April 2, 2006 |
| 850,000 | 1.75 | April 2, 2006 |
| 90,000 | 1.11 | June 5, 2006 |
| 85,000 | 0.80 | September 11, 2006 |
| 50,000 | 0.80 | October 16, 2006 |
| 75,000 | 0.85 | January 2, 2007 |
| 40,000 | 0.85 | January 15, 2007 |
| 140,000 | 1.10 | April 22, 2007 |
| 75,000 | 0.80 | November 19, 2007 |
| 485,000 | 0.80 | December 13, 2007 |
| 50,000 | 0.82 | March 31, 2008 |
| 975,000 | 0.80 | July 17, 2008 |
| 45,000 | 0.90 | October 1, 2008 |

Stock option transactions and the number of stock options outstanding are summarized as follows:

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Balance, beginning of year | 3,730,000 | $ 1.25 | 3,030,000 | $ 1.34 |
| Granted | 1,070,000 | 0.81 | 865,000 | 0.86 |
| Exercised | (50,000) | 0.80 | (85,000) | 0.76 |
| Expired/cancelled | - | - | (80,000) | 1.07 |
| Balance, end of year | 4,750,000 | $ 1.15 | 3,730,000 | 1.25 |
| Options exercisable, end of year | 4,750,000 | $ 1.15 | 3,730,000 | $ 1.25 |

### Stock-based compensation

The Company granted 1,070,000 (2002 - 865,000) stock options during the year, resulting in compensation costs under the Black-Scholes option-pricing model of $397,004 (2002 - $23,190) which was recorded as contributed surplus on the balance sheet. These costs were allocated $379,334 (2002 - $15,390) to consulting and corporate services and $17,670 (2002 - $7,800) to wages and benefits in the statement of operations. The weighted average fair value of the stock options granted during the year ended December 31, 2003 was $0.37 per share.

During the year ended December 31, 2002, the Company accounted for the granting of stock options using the intrinsic value-based method. Had the Company used the fair value-based method to account for the granting of stock options, additional compensation expense of $327,207 would have been recorded in the statement of operations. Loss for the year would have been $2,284,976 and basic and diluted loss per common share would have been $0.08.

### Warrants

As at December 31, 2003, the Company had outstanding share purchase warrants, enabling the holders to acquire common shares as follows:

| Number of Shares | Exercise Price | Expiry Date |
|---|---|---|
| 2,500,000 | $ 1.25 | December 31, 2004 |
| 4,896,000 | 1.25 | December 31, 2004 |
| 4,325,714 | 0.85 | March 8, 2005 |

### Black-Scholes valuation

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the year:

| | 2003 | 2002 |
|---|---|---|
| Risk-free interest rate | 2.86% | 3.79% |
| Expected life | 5.00 | 3.00 |
| Annualized volatility | 56.69% | 66.49% |
| Dividend rate | 0.00% | 0.00% |

## 8. RELATED PARTY TRANSACTIONS

The following transactions occurred with related parties:

a) Paid or accrued $261,345 (2002 - $236,716) to companies controlled by directors for accounting services, corporate shareholder communications, corporate development, administrative services and travel and related costs.

b) Paid or accrued $77,033 (2002 - $24,256) to a company controlled by a director for consulting fees which were included in deferred exploration costs.

c) Paid or accrued $186,963 (2002 - $182,199) to companies controlled by directors for consulting and corporate services.

d) Paid or accrued $70,217 (2002 - $73,044) for legal services to a law firm in which the secretary of the Company is a partner.

e) Paid or accrued $28,175 (2002 - $Nil) for consulting services to an officer of the Company.

f) Recorded stock-based compensation of $379,334 (2002 - $15,390) for services provided by directors, which were allocated to consulting and corporate services.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Included in accounts payable and accrued liabilities at December 31, 2003 is $102,203 (2002 - $150,225) due to companies controlled by directors or officers.

## 9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transaction for the year ended December 31, 2003 was the Company issuing 183,180 common shares valued at $137,385 and 488,480 warrants with a fair value of $95,765 as finders' fees relating to a private placement. The fair value of the warrants were allocated to contributed surplus.

There were no significant non-cash transactions for the year ended December 31, 2002.

## 10. COMMITMENTS

The Company has the following commitments at December 31, 2003:

a) The Company is committed to an operating lease on its premises at $14,050 per month plus related operating costs until February 28, 2005. Subsequent to December 31, 2003, the Company renegotiated the lease until December 31, 2011. The Company's annual lease commitments for the next 5 years are as follows:

| | |
|---|---|
| 2004 | $204,000 |
| 2005 | 222,000 |
| 2006 | 234,000 |
| 2007 | 234,000 |
| 2008 | 241,200 |
| | $1,135,200 |

b) The Company is a party to a management agreement with a company controlled by a director which requires the Company to pay $15,000 per month for geological consulting and corporate services. The contract expires September 1, 2007.

c) In fiscal 2002, the Company's joint venture partner on the Carat claims (Note 4) submitted to arbitration the validity and accuracy of certain invoices for exploration expenditures submitted by the Company.

During the current year, the outstanding issues in the arbitration were settled by agreement, with the Company required to pay $546,247 to the joint venture partner as follows:

i) amount of $261,572 for repayment of certain invoices (paid); and

ii) amount of $284,675 for legal fees incurred by the joint venture partner during the arbitration (accrued).

There are no further obligations to the joint venture partner with respect to the arbitration settlement.

# Notes to the Financial Statements

**11. INCOME TAXES**

A reconciliation of current income taxes at statutory rates with the reported taxes follows:

| | 2003 | 2002 |
|---|---|---|
| Loss before income taxes | $(2,778,415) | $(1,957,769) |
| Income tax recovery | $(1,044,684) | $ (775,277) |
| Non deductible expenses | 207,429 | 67,808 |
| Gain on marketable securities | - | (1,637) |
| Write-down of receivables | 46,312 | 43,352 |
| Unrecognized benefits of non-capital losses | 750,873 | 525,843 |
| Mineral property and cost write-downs not tax effected | 40,070 | 139,911 |
| Net income taxes (recovery) | $ - | $ - |

The tax effects of temporary differences that give rise to significant components of future income tax assets and liabilities are as follows:

| | 2003 | 2002 |
|---|---|---|
| Future income tax assets: | | |
| Property and equipment | $ 81,000 | $ 53,000 |
| Losses available for future periods | 2,575,000 | 1,357,000 |
| | 2,656,000 | 1,410,000 |
| Future income tax liabilities: | | |
| Mineral properties and deferred exploration costs arising principally due to flow-through shares | (4,534,000) | (4,276,000) |
| Net future income tax liability | $(1,878,000) | $(2,866,000) |

Subject to certain restrictions, the Company has operating losses of approximately $7,200,000 available to reduce taxable income of future years. Unless utilized, these losses will expire through 2010. In addition, the Company has exploration and development expenditures of approximately $14,900,000 available to reduce taxable income of future years.

During the current year, the Company issued 6,871,800 common shares on a flow-through basis for gross proceeds of $5,278,850. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to the flow-through participants. The Company renounced exploration expenditures of $5,278,850 by December 31, 2003. As at December 31, 2003, restricted cash of $5,618,436 (2002 - $4,295,248) represents funds posted as bonds for prospecting permits and funds allocated for use on future Canadian exploration expenditures.

**12. SEGMENTED INFORMATION**

The Company conducts substantially all of its operations in Canada in one business segment, being the exploration and development of mineral properties.

**13. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and equivalents, restricted cash, marketable securities, receivables, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

**14. SUBSEQUENT EVENTS**

The following events occurred subsequent to December 31, 2003:

a) The Company issued 137,320 common shares for proceeds of $122,972 pursuant to the exercise of warrants.

b) The Company issued 255,000 common shares for proceeds of $204,000 pursuant to the exercise of stock options.

c) The Company granted 200,000 stock options to a director of the Company. Each option is exercisable into an additional common share at $0.80 per share until January 12, 2009.

d) The Company granted 50,000 stock options to an officer of the Company. Each option is exercisable into an additional common share at $0.80 per share until January 22, 2009.

e) The Company granted 25,000 stock options to an employee of the Company. Each option is exercisable into an additional common share at $1.15 per share until February 8, 2009.



* **Quote Source: www.statscan.ca**

# Corporate Information

Trading Symbol: DSP   Exchange: TSX-V

### DIRECTORS AND OFFICERS

**James Eccott**
*Chairman & Director*

**Randy Turner**
*President, CEO & Director*

**John McDonald**
*Director*

**Hugh Morris**
*Director*

**Mike Muzylowski**
*Director*

**John Greig**
*Director*

**Peter Atkinson**
*Director*

**David Clarke**
*Vice President Exploration*

**Christopher Mitchell**
*CFO*

**Graham Scott**
*Corporate Secretary*

### TECHNICAL TEAM

**David Clarke**
*Vice President Exploration*

**Eric Craigie**
*Chief Geologist*

**Caroline Harke**
*Senior Project Geologist*

**Karen-Jane Weir**
*Project Geologist*

**Cameron McLean**
*Geologist*

**Anne Hall**
*Chief Mineralogist*

**Dr. Lada Reimers**
*Senior Mineralogist*

**Sanja Jovanovic- Milosevic**
*Mineralogist*

**Dana Dobrescu**
*Mineralogist*

**Ed Rockel**
*Geophysicist*

**Janet Stritychuk**
*Land Manager*

**David McKee**
*Manager of Information Systems*

**Dr. John McDonald**
*Chief Technical Advisor*

**Dr. Nikolai Pokhilenko**
*Principal Consultant*

**Dr. Michael Stubley**
*Consulting Structural Geologist*

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